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WORLD ECONOMIC SURVEY

EMBARGO

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MODEST RECOVERY FORESEEN FOR WORLD ECONOMY BUT MAY BE INADEQUATE TO SOLVE PROBLEMS

Liberalization, Privatization, Fiscal Reform Continue

The global economy may recover this year from the first world-wide recession since World War II, but the rebound will be modest at best and could falter in the event of significant adverse shocks, according to the *World Economic Survey 1992*. Growth in the 1990s, it warns, "may be inadequate to resolve the many and varied problems around the world".

The United Nations, which publishes the *Survey*, is also predicting that the world gross domestic product (GDP) will recover slowly this year, averaging only 1 per cent, but will rise by about 3 per cent in 1993. Developed economies will grow nearly 2 per cent this year, with inflationary pressures likely to ease further in North America but to increase slightly in Europe.

Among other developments on the world economic scene discussed in the *Survey*:

- World output per capita fell by over 2 per cent in 1991, after virtually stagnating in 1990.
- Among developing countries, African economies barely kept up with population growth, Latin America seemed to stir after a decade of stagnation, and in Asia, growth remained widespread and fast despite the slowdown in world trade.
- The relative lack of growth had grave consequences around the world, as economic and social conditions deteriorated. The *Survey* stresses that governments have responded by cutting budgets and public service payrolls, "accentuating the problem rather than remedying it".
- The international debt situation has been defused, although in many countries the debt burden remains serious and credit scarce.
- Last year's 3 per cent gain in the volume of world trade was the third year of declining growth, but remarkable given falling global output. World trade will expand about 4.5 per cent in 1992, with stronger growth projected for 1993.
- Eastern Europe and the Russian Federation are in the grip of a "savage economic contraction" unprecedented in industrialized countries; poverty and homelessness are on the rise, and enterprises are behaving with a "short-term" outlook.

BUILD INVESTMENT RATHER THAN CUT DEFICIT, *SURVEY* URGES

World economic growth is expected to be unnecessarily restrained in the medium term, the *Survey* predicts, because of what it calls an inadequate allocation of the world's resources to investment projects and an "inopportune" cutback in public sector investment. It states that "the pendulum may have swayed too far in the direction of market orientation, leading to a neglect of the role and responsibility of the State in development".

According to a forecast by Project LINK, a collaborative international research group for econometric modelling headquartered at the United Nations, expected reductions in budget deficits will be associated with quite modest

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GDP growth rates. While supporting the medium-term goal of sharply reduced government deficits, the *Survey* estimates there would be considerable benefits from a slower pace of budget consolidation in Germany, Japan and the United States.

If, for example, each of these countries made roughly half the budget cuts they had planned, and if the United States restored a 10 per cent investment tax credit to boost private investment by 1996, it could make world investment $200 billion more than it would have been otherwise, according to the *Survey*. With some of the additional government expenditure assumed to take the form of financial transfers to a group of lower and middle-income developing countries and to the economies in transition, the results would be quite favourable for all countries concerned. In the target developing countries, output would grow an additional 0.7 percentage points each year on average between 1993 and 1996. The result would be even more dramatic for eastern Europe, where investment would reach 30 per cent of GDP by 1996 (the improvement would be smaller in the former Soviet Union where the problems are deeper). Investment would rise appreciably in the United States—from 18 per cent of GDP in 1992 to over 23 per cent in 1996. Output would grow more rapidly as well. Japanese exports would receive a boost, while the sluggish German economy would be given a lift and a major dent made in the unemployment rate. Because so much slack is otherwise expected to remain in these countries, there would be virtually no inflation penalty from the economic stimulus and only a slightly higher real interest rate in the United States.

In short, with a new policy focus "it is possible for the economic out-turn in these countries to be better domestically and better for the world economy" compared to the outlook under "the prevailing system [which] seems to suffer from a recessionary bias".

INDUSTRIAL COUNTRIES GROW SLOWLY

In the developed market economies, which account for almost 72 per cent of world output, growth fell from 2.6 per cent in 1990 to just under 1 per cent in 1991. Several countries slid into outright recession, and in many of them unemployment reached its highest levels since the early 1980s, as some 3 million people joined the ranks of the unemployed. The rate varied from 2.1 per cent in Japan and 6.6 per cent in the United States to 10.2 per cent in Canada.

The *Survey* is predicting that by 1993, unemployment will be about 7 per cent overall and about 10 per cent in Western Europe. Inflation will be held in check and budget deficits will come down sharply—in the United States, from $330 billion this year to $185 billion in 1996, or 2.4 percent of gross national product (GNP). In Germany, the deficit will shrink from 4.2 per cent of GNP to 0.9 per cent; in Japan, from 1.5 per cent to 0.5 per cent.

U.S. ECONOMY REMAINS STAGNANT

A year ago many people believed that the economic downturn in the United States, which alone accounts for more than one third of the output of all developed countries, had ended. It hadn't ended and the recovery this year is forecast to be weak: GNP is projected to grow by only 1.6 percent. The slow-growth trend is likely to continue until structural imbalances stemming from the 1980s are corrected. One such imbalance is the high level of debt carried by households and businesses.

The recovery is expected to be led by growth in personal consumption and residential construction, modest inventory building and continued export growth, with exports outpacing imports as a continuing response to the earlier decline in the dollar and more competitive unit labour costs. The country's trade deficit and the net transfer of resources are thus expected to shrink.

United States exports grew 7 per cent last year, reducing the country's merchandise trade deficit to about $74 billion and narrowing the deficit as a proportion of exports from over 60 per cent in 1987 to under 20 per cent. That, the *Survey* argues, "makes the current protectionist sentiments in the country incongruous".

As to government spending, "the recession made a mockery of deficit-reduction commitments," states the Survey: the federal deficit surged to $269 billion as of 30 September last year and is projected to still be as high as $352 billion by 1992/1993. "As the failure to contain the U.S. budget deficit showed, political pressures in a

democratic government may prevail over economic objectives," the *Survey* comments, adding that this was also the case in Germany, Italy and Japan. Thus, while consolidating the deficit remains a very important medium-term policy goal, if present policies continue, the recovery "will be weak and make little dent on unemployment".

In Germany, economic integration of the former German Democratic Republic meant having to sacrifice the country's "hard-wrought budget discipline" for a higher political goal, as the *Survey* puts it. Unemployment and migration, the need to equalize wages between east and west, and investment in schools, hospitals and social institutions forced the Government to borrow.

Italy's "unmanageably high" deficit will have to be cut in order to meet the requirements of the Economic and Monetary Union that was planned by the European Community (EC) last December in Maastricht, the Netherlands. From 38 percent of GDP in 1980, Italian government spending surged to 49 per cent by 1991. The country has a large public sector and a heavily dependent private sector. The need, insists the *Survey*, "is not for a wholesale withdrawal of the Italian State from the economy, but for a redirection of the effort within a sustainable fiscal framework".

Although Japan has traditionally abhorred fiscal deficits, the Government is currently working to reduce the public sector borrowing requirement even further, to less than 5 per cent of budget expenditures by fiscal year 1995. At the same time, in response to a growing concern about the economic slowdown, it has announced several economic revitalization measures, such as scheduling more public works. The net effect is expected to be a small stimulus to the economy as a whole and a somewhat more significant addition to gross investment.

TRANSITION ECONOMIES IN TROUBLE

Economic output in the countries in transition to a market economy was down 16 per cent last year and will probably contract by 12 per cent this year, falling further in 1993 but at a slower rate. With the unravelling of the Soviet Union and the long period of equivocation and hesitation, the disruption of economic activity intensified; the traditional mechanisms for economic exchange and distribution broke down without new mechanisms to replace them. Although the successor countries and their Commonwealth of Independent States (CIS) have begun their economic transformation, neither the path of their transition nor the character and mix of state and private activity towards which they are aiming is clear yet, the *Survey* observes.

Two thirds of the machinery and equipment in Soviet industry was technically obsolete and 42 per cent of fixed assets were due for replacement at the time of the Union's demise. Industrial and agricultural production alike were especially hard hit. Bank credit expanded rapidly, most of it used by enterprises to "avoid the pain of adjustment to a rapidly changing economic environment". Thus, at the same time as the Government was starved for funds, the cash flow of enterprises and organizations grew. Much of the 80 per cent increase in profits during the first three quarters of 1991 went into expenditures and bonuses for employees and little of it to long-term investment. The transition was made even more painful by the drastic and sudden decline in household income, social transfers, and public expenditure on health, education and child care.

Inflation, except in Czechoslovakia, exceeded by a wide margin what policy makers had targeted. It exploded in the former Soviet Union, especially after the liberalization of prices this January. By mid-February, prices had jumped at least 350 per cent above the year-end 1991 levels. The former USSR had a consolidated budget deficit of 300 billion roubles last year, or nearly 18 per cent of GNP, compared to 1.8 per cent in 1985.

The situation in the former Soviet Union contrasted markedly with that in some of the other eastern European countries, which had begun their transitions to market economies. Stabilization-cum-liberalization policies have started to bear fruit in the countries that began the process first. Thus, serious shortages have disappeared in Czechoslovakia, Hungary and Poland. The social cost, however, has been high, particularly in terms of unemployment, which increased sixfold in Bulgaria and Czechoslovakia. Eastern Germany is making the transition as rapidly as possible, substantial financial support from western Germany having enabled it to accept wholesale

disruption of economic activity as a short-term cost.

According to the *Survey*, some unemployment is an unavoidable consequence of the economic transformation process, but the prospect is that unemployment will worsen in the short run. Most families sought to cope with their income loss in the "first economy" by extra work, particularly in the "second economy"—the informal and private sectors. The public safety nets for vulnerable groups are inadequately funded, and a certain degree of intellectual disarray has now set in. "Although individual freedom has been strengthened by the weakening of various forms of authority and of previously accepted values of collectivism," says the *Survey*, "in a sense society has become more fragile."

For all the excitement about the appearance of non-state forms of property such as cooperatives, commercial banks, commodity exchanges and private stores, the State still owns the productive economy. Restrictions on ownership and sale of land remain major obstacles. If economic reform is to take hold, 1992 will have to be the year when privatization of state property begins in earnest. Solid national economic interests will have to be reconciled with powerful—if not always rational—sentiments of resurrected national identity and state independence. Growth prospects in these countries will depend largely on their success in restoring fiscal balance, controlling inflation, building up financial institutions, and privatization.

SLUGGISH PACE FOR DEVELOPING COUNTRIES

In 1991, overall economic growth in developing countries remained sluggish at around 3.4 per cent—about the same as during the previous two years, according to the *Survey*. However, the situation varied substantially from region to region: South and East Asia remained the fastest-growing region in the world, although overall growth fell from 6.3 per cent in 1990 to 5.4 per cent last year. The region's GDP growth is expected to be about 5.5 per cent this year and 6.5 per cent in 1993. In China, the continuation of less restrictive monetary policies, coupled with the easing of external restrictions on imports of machinery and equipment, is expected to maintain investment at a high level, and growth is forecast at around 7 per cent this year, roughly the same as in 1991. Per capita incomes in Africa, on the other hand, showed virtually no change last year, but GDP growth will pick up slightly this year to around 3.5 per cent (except for sub-Saharan Africa, which will see a 2 per cent growth). In the Mediterranean region, caught between the impact of the Gulf war and the war in Yugoslavia, economic activity fell sharply.

Declining international interest rates eased the burden of debt service, although debt owed by the capital-importing developing countries was virtually unchanged at the end of 1991 from a year earlier. It was 36 per cent of GDP, compared to 50 per cent at its worst in 1987. The debt-to-export ratio was also down, at 133 per cent, after peaking at 200 per cent in 1986.

Latin America and the Caribbean witnessed a dramatic improvement last year in almost all aspects of the economy, which grew 2.6 per cent and will be up about 3 per cent in 1992 and 4 per cent in 1993. For the first time since 1987, GDP expanded in all major and medium-sized countries. Inflation slowed, and the net financial transfer to the region through foreign and domestic capital, interest and related flows was over $4 billion, reversing almost a decade of net outflow. This considerably increased the availability of imports and allowed foreign official reserves to reach new highs. According to the *Survey*, the debt problem looks "more manageable".

Nonetheless, while adjustment and stabilization efforts have improved macroeconomic performance, the achievements are still fragile and require continuing sacrifices from most of the population. Countries are going through different stages of economic reform programmes. Most of them, however, share an inclination towards free markets, trade liberalization and privatization, often linked to foreign debt buybacks and debt-equity swaps. Mexico and Chile did best, while persistent external and domestic imbalances kept growth marginal in Brazil, Costa Rica, Honduras and Nicaragua and stagnating in the Dominican Republic. Only Cuba and Haiti suffered dramatic declines in economic activity.

The burden of Latin America's fight against inflation has been put on reducing the deficit and curtailing the growth of wages in the formal sector. This has involved postponing essential public expenditures and privatizing state enterprises, generating a once-and-for-all increase in

government revenue. The scale of privatization was particularly large in Mexico, where in 1991 alone the sale of various steel and banking enterprises generated billion-dollar receipts. Investment is expected to jump in anticipation of the North American Free Trade Agreement.

Previously rapid growth in Latin American export revenues gave way to stagnation in 1991, due to recession in the industrialized countries and also to increased domestic absorption. Import volume expanded by 16 per cent, fueled by the economic recovery and by trade liberalizaion. The trade surplus fell by more than 50 per cent for the region as a whole, but this was more than offset by an improvement in the capital accounts.

The *Survey* cautions that the rapid inflow of private capital—which last year was double the 1990 level—is not an unmitigated blessing. Combined with trade liberalization, currency appreciation causes imports to rise much faster than exports, which is sustainable only if there is a continued net inflow of capital.

African output grew about 3 per cent last year, less than population growth. Although the effects of the Gulf crisis had subsided by late 1991, the terms of trade continued to deteriorate and, despite a 4 per cent increase in export volume, the continent's export revenues declined as a result of falling commodity prices. Many countries continued their economic reform programmes, but their effects on investment and growth are still disappointing.

Famine threatens approximately 34 million people in Africa, more than half of them in Ethiopia, the Sudan and Somalia. Early this year drought conditions were worsening in southern Africa. Because food takes up about half of household expenditures in many African countries, food shortages, reduction of food subsidies and food price liberalization have a large impact on consumer prices and thus on accelerating inflation.

Many African countries have started to cut their budget deficits by privatizing state-owned enterprises, increasing tax revenues or reducing payroll expenditures, the *Survey* says.

West Asia is the region that suffered the most serious and immediate economic consequences of the Gulf war, from plunging output to loss of trade, tourism and workers'remittances. Combined GDP for the region shrank, and almost all countries faced increased budget deficits due to an unprecedented rise in government outlays, many of them war-related but others used on social services for the massive influx of returnees or refugees. To finance the deficits, most countries borrowed domestically and externally.

Despite increased government spending, inflation in energy-exporting countries remained relatively low, the major exceptions being Iran, Iraq and Syria. By contrast, consumer prices were up an average 20 per cent in the net energy-importing countries of West Asia. The external balance of most countries worsened last year as well; private transfer payments increased due to the massive transfer of savings by the departing foreign workers, which

NEW ROLE SEEN FOR SOUTH AFRICA

The *Survey* reports that the political changes taking place in South Africa will change that nation's role within the continent, in particular for the southern region, with important consequences both for the national economy and for the African economy as a whole. This represents a challenge and an opportunity for Africa: in 1989 South Africa accounted for about 22 per cent of total GDP and 29 per cent of the total merchandise exports but only 6 per cent of the continent's population. It has the potential to become a large supplier of capital and technology-intensive goods to the rest of Africa.

South Africa is likely to become the financial centre of Africa in the future. It also has scientific and educational resources which could make it an important growth pole for the continent. The country's large market should attract labour-intensive manufactures from other African countries which would also be able to export a variety of agricultural commodities, oil, water and hydroelectricity to South Africa.

The first signs of growing regional relations are already in place between South Africa and its neighbours: the country's trade with the rest of Africa increased by 40 per cent in 1989 and 22 to 30 per cent in 1990; actual trade is likely to be much more extensive than officially reported figures. At least a third of South African manufacturing exports went to other African countries whose exports to South Africa constitute a large share of their total exports. Workers' remittances and direct investment are other areas of interdependence.

widened the region's current account deficit.

Attracting foreign investment in such sectors as aluminium, light industry and services has become a major aim of long-term policy, and to that end many countries have revised their ownership regulations.

South and East Asia slowed down almost a full percentage point last year. As in 1990, growth in domestic demand rather than exports was the locomotive of growth. Except for the Philippines and India, all economies in the region grew much faster than their population, but slower than before. Among the exceptions are Hong Kong and Taiwan Province of China, where higher growth last year owed much to the boom of China's southern provinces. Other cases of renewed growth are Afghanistan and Papua New Guinea, which is going through a mining boom.

With the war in Yugoslavia and the slowdown in Turkey and Cyprus, the **Mediterranean** region's real GDP plummeted 7 percent in 1991. Inflation in the former Yugoslavia reached more than 250 per cent, with unemployment exceeding 20 per cent; for Turkey, the figures are 70 per cent and 11 per cent, respectively.

TRADE LIBERALIZATION UNDER WAY

The *Survey* attributes the slow growth in world trade primarily to the recession in the industrial countries and to the economic collapse in eastern Europe and the former Soviet Union. Its revival will depend largely on how quickly the industrial economies recover from the recession, on the release of pent-up import demand, and on efforts to liberalize trade in the developing countries. That revival could, however, be hampered by continuing protectionist trends in the major trading nations, the *Survey* warns.

The *Survey* reports that forces eroding the multilateral trading system appear to be gathering strength, with some countries pursuing "aggressive unilateralism" and managed or results-oriented trade in an attempt to pry open foreign markets. In the United States, that policy has focused on bilateral trade with Japan and other countries.

Targeting countries which have a trade surplus with the United States is "not economically rational", according to the *Survey*. Trade deficits and surpluses and the problem of market access are distinctly separate issues, the authors argue, citing the fact that while the United States claims serious market access problems in a number of sectors in Europe, it ran a sizeable trade surplus with Western Europe in 1990 and 1991.

Any attempt to manage trade in today's world is "complex and futile", as the United States automobile industry shows. "Given the importance of inter-industry trade and transborder trade of transnational corporations," the *Survey* says, "it is not clear what an 'American' or 'foreign car' actually is. A car may be made in the United States by a foreign-based company or may be built abroad by a United States company."

For the United States, last year's 7 per cent growth in exports was one of the year's few economic bright spots, and was also much higher than that of other major developed countries. The growth was fueled by the decline in the value of the dollar in earlier years.

Meanwhile, the focus of United States' protectionism has shifted from overall deficit to bilateral deficits. Deficits with China, Japan and Taiwan Province of China together accounted for some four fifths of the United States' trade deficit in 1991, up from roughly half in 1988.

The value of the industrialized economies' merchandise exports and imports, which represent about 70 per cent of world trade, was up about 2 per cent last year. That increase was sustained largely by a growing demand for imports in Germany and the continuing strength of United States' exports.

More than 30 developing countries undertook trade liberalization initiatives since September 1986, almost one third of them in Latin America. The *Survey* gives several reasons for this shift towards liberalization, including outward-looking trade policies, the conditionality of external assistance for stabilization programmes, changing views on the role of the State, and recognition of the limits of the import substitution model.

Last year also saw a continuing trend towards the formation of regional trading blocs, not just in Western Europe and North America but also in South America, Central America, the Caribbean, eastern Europe and the republics of the former Soviet Union, Asia, the Black Sea area and Africa. Their impact on the global trading system has, however, remained a subject of debate, with

many viewing them as "building blocs" and others describing them as "stumbling blocs" to liberalization. As the *Survey* sees it, "the costs of consolidation of the world into a few large trading blocs would probably be borne not by the countries in the blocs, but by those left out."

Another trade-related development is the record low levels of primary commodity prices, which will continue to deteriorate this year although they will improve in 1993. Average prices of non-fuel commodities plunged 6.3 per cent in 1991, mainly because overly optimistic forecasts following the Gulf war spurred producers to maintain high production and exports levels. Prices were also influenced by market dislocations caused by the breakup of the Soviet Union.

THIRD WORLD TRADE OUTPACES WORLD TRADE

Last year, developing country exports jumped around 10 per cent in volume and 5 per cent in nominal dollar terms as average prices of exports fell. Imports also rose sharply, by about 9 per cent in volume and 8 per cent in value. The growth of developing country trade was thus much higher than that of world trade.

Developments that affected the merchandise trade of developing countries last year include the reduced demand in the developed world for developing country exports, the price declines from unanticipated increases in mineral and metal exports from the former Soviet Union, the loss of export markets in eastern Europe and the lingering effects of the Persian Gulf conflict.

Imports of Latin America and the Caribbean surged at the highest rate in recent years, growing 14 per cent in volume in 1991, while exports were up nearly 5 per cent.

The 4 per cent rise in Africa's exports was more than offset by a 9 per cent decline in export unit values, leading to a 6 per cent fall in export earnings. Prices of oil, coffee, cocoa, copper and other commodities that together account for over 80 per cent of the continent's export revenues were lower in 1991. The region's terms of trade worsened by more than 7 per cent.

One of the most dynamic elements in world trade last year was the 14 per cent surge in export volume from South and East Asia. The region's imports grew almost as fast, at around 12 per cent. The rapid expansion of China's exports—up about 16 per cent in value—can be attributed to reforms that allowed for increased autonomy in the export sector, an overall depreciation of the yuan and rapid industrial growth. The 20 per cent import growth resulted from lifting the austerity measures that had restricted imports in the past two years.

In West Asia, by contrast, lower oil prices led to a 10 per cent fall in export revenue, despite an increase in the volume of oil exports.

The volume of foreign trade of the economies in transition fell sharply in 1991, due largely to contracting trade among the eastern European and Soviet economies themselves. There was, however, a substantial boost in trade with the market economies: exports were up about 8 per cent, with a 6 per cent rise in imports.

The Governments of eastern Europe are trying to reorient their economies more "outwards", reports the *Survey*. Although that task will be slowed by the lack of competitive products other than raw materials and energy, 11 countries in the CIS have already signed an agreement allowing the free flow of goods and services between member States and basing trade between them on world market prices. Czechoslovakia, Hungary and Poland have firmed up association agreements with the EC which will not only ease some import quotas but also allow for possible membership in the Community.

On the subject of trade and the environment, the *Survey* notes that "while environmental standards are sometimes seen as a new form of non-tariff barrier, environmentalists complain that some countries are tempted to use lax regulations to attract industries". Certain countries, especially those with low levels of income, place a greater premium on growth than on the environment. On the other hand, one of the "major dangers" to the trading system is posed by the use of environmental protection as a cover for trade protection.

FINANCIAL SITUATION IMPROVES DRAMATICALLY

The world financial scene last year was marked by dramatic changes in the net transfer of resources between developed and developing countries. The industrial

countries transferred about $25 billion to developing and transition economies, reports the *Survey*. Only a year before, they had received a transfer of $24 billion. The net intake of financial transfers to the United States was slashed by $44 billion last year, especially from the developing countries.

Major changes are under way in the net transfer of eastern Europe and the former Soviet Union; in 1991, that transfer turned negative. As for the developing countries, not all of them shared in the measured net inflow of $24 billion: $19 billion of it went to the "capital-surplus" oil exporters of the Middle East. However, the "capital-importing" countries registered their first positive net transfer since the debt crisis erupted in 1982. Most of the change was enjoyed by 10 heavily indebted countries in Latin America which were left with the first surplus in this account since 1981.

The largest change in the net transfer of resources of developing countries has been in the greater inflow of short-term funds and the reduced outflow of funds from those countries themselves, especially in Latin America. That region enjoyed an estimated net inflow of $16 billion last year in those accounts, reflecting the success of stabilization programmes, the return of investor confidence and some speculative capital inflows.

The net transfer through direct investment continued its upward trend in 1991, much of it associated with privatization-cum-debt restructuring. Activity of heavily indebted developing countries on international financial markets has resumed, although access to the markets is quite limited.

Official finance for development swelled in 1990 and 1991, primarily because of grants to countries seriously affected by the Gulf crisis, the *Survey* says. Official development grants from the United States, however, dropped by $42 billion net, turning it into a recipient country instead of a donor, largely to help finance its participation in the Gulf war; this year the flow of official grants is expected to return to normal.

Worldwide, grants will begin to fall back as the crisis ebbs, but the need for highly concessional development assistance remains, particularly to combat poverty and environmental degradation. In fact, the real value of official development assistance actually declined in the second half of the 1980s, with 1991 figures much the same as in 1990. "The prospects for the years ahead are not encouraging," according to the *Survey*.

DEBT OUTLOOK IMPROVES

Today's international debt strategy recognizes that many heavily indebted countries cannot work themselves out from under their "debt overhang" and that some of the debt has to be written off. Although the new strategy has not brought about a major net reduction in the debt itself, the authors of the *Survey* feel that progress is being made, most notably in the heavily-indebted Latin American countries.

Africa's total debt decreased slightly, but mostly because much of Egypt's debt is being written off. For sub-Saharan Africa, the debt stock rose somewhat, and the debt-to-export ratio was up nearly 13 percentage points owing to poor export earnings. The total debt of Latin America was reduced by about $3 billion, reflecting debt conversion schemes and privatization. Asia's debt stock, by contrast, was higher.

At the Paris Club, where debt owed to official creditors is renegotiated, new exceptional terms for rescheduling the debt of highly-indebted low-income countries were introduced at the end of 1991. This followed two other major precedents: the agreement to write off up to half the debt owed by Egypt and Poland, and the rescheduling of all of Peru's intergovernmental and export credit debt. At the regional level, the United States' new Enterprise for the Americas Initiative, announced in 1990, provides for debt reduction, investment and free trade to accompany free-market policy reforms in Latin America and the Caribbean, and contains provisions for debt-for-nature swaps as well as for building an environmental fund.

The *Survey* reports that in eastern Europe and the former Soviet Union, the development of a market-oriented financial sector—essential for the effective allocation of foreign and domestic financial resources—is at an early stage but proceeding apace. Commercial banks are proliferating and are being recapitalized. Money markets and government bond markets are being introduced and stock exchanges have been established, although at present they may serve more of a symbolic value than an

economic one, given the paucity of domestic equity shares to trade.

From outside the region, one major focus of uncertainty has been the servicing of the outstanding debt of the former Soviet Union. By March of this year, the 11 members of the CIS had agreed to assume "joint and several" responsibility for repaying the $80 billion foreign debt of the USSR. However, the agreed debt servicing has not been kept current, nor has the $158 billion owed the former USSR by developing countries and former socialist nations, most of which is believed not to be recoverable.

The immediate need in the former Soviet Union is to improve its international cash inflow—a major challenge, given the capital flight from exporters who refuse to exchange their revenues for roubles.

As part of their reintegration into the world economy, as well as to obtain the necessary external finances for the transition to market economies, all the eastern European countries and the 15 successor States of the former Soviet Union have joined the International Monetary Fund (IMF) and the World Bank, overall official flows to eastern Europe have been coordinated by the EC.

PEACE DIVIDEND "FRITTERED AWAY"

The *Survey* also takes a look at military spending and what can be expected from the so-called "peace dividend", which it says has "vanished from sight, frittered away in budgetary squabbles in the West and engulfed by economic chaos in the former Soviet Union". The most important issue in the developed world is what will happen in the United States, since changes in its military spending dwarf the effects of such possible changes elsewhere.

The United States devotes 5.8 per cent of its GNP to defence, more than any other industrialized country except Greece and about 50 per cent more than that of all the other industrialized countries combined. It also exports more arms than all the other developed countries put together. However, even massive layoffs by arms-producing companies and associated federal cuts in military spending would not have a significant influence on the unemployment rate, studies have found. If the economy is performing well, the absorption of defence-sector workers should proceed in a reasonable manner.

ENERGY OUTLOOK STABLE

The *Survey* is predicting that the average price of oil will be $15 per barrel in both 1992 and 1993, with movement toward that price depending on the magnitude and timing of resumed oil exports by Iraq and Kuwait, on the pace of world economic recovery, on the volume of oil production in the former Soviet Union, and on plans for expanding oil production capacities in major countries of the Organization of Petroleum Exporting Countries (OPEC).

Total oil consumption in the developed countries remained virtually flat in 1991, with increases in Western Europe and the Pacific offset by declines in North America. In eastern Europe and the CIS, oil consumption continued to fall. Growth was relatively strong in the developing world, especially in the rapidly growing economies of Asia.

World oil output dipped, but OPEC production reached its highest level in almost a decade, and the North Sea produced record highs as well. Most experts agree that in the 1990s, demand for OPEC oil, especially from the Persian Gulf, will increase substantially because of abundant reserves and low costs. Overall, world oil demand is expected to resume growth soon, probably by at least 1 million barrels per day per year for the rest of this decade.

ENTREPRENEURSHIP PATTERNS DISCUSSED

In surveying the changing patterns of entrepreneurship in the developing countries and transition economies, the *Survey* highlights the prominence of the informal sector in Africa, in which employment is projected to increase 6 per cent annually from 1990 to 2020. It also discusses the rapid increase in Asian production that was based on a high level of small-scale entrepreneurial activity, and entrepreneurial trends in Latin America, including the establishment of manufacturing "free zones", subcontracting with multinational corporations, and franchising.

Women's share in the labour force has increased almost everywhere, the *Survey* says, but especially in the urban informal sector of developing countries, where women account for one third or more of all workers. The numbers of women entrepreneurs and microentrepreneurs are on the rise worldwide.

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